MEMORANDUM

BAYLOR COLLEGE OF MEDICINE

CONFIDENTIAL

To: Dr. Michael E. DeBakey

From: Kenneth W. Bradshaw

Date: February 22, 1993

I believe we are quite vulnerable to a number of our surgeons setting up their practices independently of the College. As you are aware, one of our surgeons has recently approached another hospital toward establishing his practice in conjunction with it. I have now been told two of our senior surgeons, one of our junior surgeons, and others who are unnamed, are talking about establishing an independent group for their practices. The foregoing junior surgeon has requested Privileges at St. Luke's. I have also been told by another senior surgeon that he intends to ask for Privileges at St. Luke's. In the latter instance, I believe it is either to do managed care, or as a defensive measure, rather than an offensive initiative.

In numerous conversations through time it has been implied or said that, I am the problem; you are the problem; the College is the problem; or all of the above. There is either an incredible ignorance of what is happening financially as it affects everyone in health care; an inability to accept it; or fear resulting in rejection because of life styles/obligations being in jeopardy.

For perspective, we strive for 30% of our surgeons' net professional fees, as well as expect them to teach, do research, and handle some administrative responsibilities. In return, as our surgeons see it, those with Brown/Alkek offices receive free rent, as do those in the Smith Tower if our collective diagnostic and treatment referrals to Methodist result in sufficient credits against the rent for that space. I believe our referral credits will offset the Smith Tower rent for Fiscal 1993. Clearly there is other support provided by the Department and College, but our surgeons' contention is they pay for it.

Looking at it from the surgeons' perspective, their net professional fees are declining by reason of reduction in Medicare reimbursements, and their inability to do managed care. Also, President Clinton's tax proposals would further impact their income. I believe these circumstances are causing our surgeons to consider how they can minimize the financial impact on them, with a practice independent of the College probably being a viable possibility. From their financial standpoint, they may not have a choice.

As I see it at this stage of my thinking, our first objective must be to retain our surgeons, with the exception of the one you and I have discussed. The second objective must be to work out an arrangement which is beneficial to everyone. I think this necessitates that academic practices reasonably compete with non-academic practices. That is, from this point forward it has to be more financially competitive for our surgeons to maintain practices with us. I believe this necessitates our ability to do managed care in the immediate-to-near term, with there being a commitment from the College to our surgeons that this issue will be resolved satisfactorily. We also need fair compensation from Methodist for perfusion services to minimize the demands otherwise made on our surgeons to fund expenses of the Department's programs and overhead. Also, the College must help direct patients to the surgeons. Lastly, the College should not be inflexible on requiring 10% of net professional fees from the Department.

Perhaps circumstances now permit developing an alternative compensation plan to minimize the reduction in, and perhaps even maintenance of, our surgeons' income. Incorporated therein would be an incentive to minimize expenses. There are a host of things we can do to optimize expenses if our surgeons are receptive to them. For example, centralize such things as collections, as well as transcription of discharge summaries; and meaningful sharing of all resources. Also, we could schedule cases requiring perfusion services in such a way as to reduce the number of rooms which perfusionists must cover and therefore the number of perfusionists. I understand our surgeons will take strong exception to these issues, and just days ago one threatened to take his practice elsewhere when one of the perfusionists told him we were "going to" reduce the number of rooms covered by perfusionists. Clearly, no such decision has been made. Thus, an alternative compensation plan would have to be structured with such an incentive for reducing and containing expenses as to make measures like the foregoing acceptable.

Lastly, the College may need to successfully address with Methodist the latter's granting us further credit for the business which we direct to it.

If you concur with the essence of the foregoing, I suggest creating an appropriate awareness within the Administration and perhaps at the Board level. There is a very critical exposure here which I believe is detrimental to the College and will necessitate its support to address successfully. I do not think the exposure of losing some of our senior surgeons is an issue which can await a new Chairman. Accordingly, with the Administration's/Board's support, I suggest calling the Surgery Faculty together to address the foregoing on a heads-up basis with them. We cannot preclude our surgeons from developing defensive alternatives. However, I believe we have an obligation to the Department and College to

arrive at an equitable resolution of the fundamental issues and that time is of the essence.

In keeping with the foregoing, I am judiciously trying to reasonably minimize expenses without the surgeons concluding we have added the straw which breaks their back. The net result is that expenses will not be reduced to the extent reasonably possible until such time as there is a successful resolution of the aforementioned issues. Please advise me if you desire a different approach.

I welcome your thoughts.

KWB-loc